

Chairman's Statement



I am pleased to present to our shareholders the annual report of Broad Intelligence International Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2005.

BUSINESS REVIEW

Thanks to the concerted efforts of all the staff of the Group, the 15 new production lines in our new production complex were granted GMP certification by the National Food and Drug Administration in March 2005. The Group is one of the pharmaceutical manufacturers with the most diversified production technologies (various production lines) in the PRC. The new production lines enabled the Group to respond readily to the market demand and pave the way for the future development of the Group going forward from 2006 to 2008.

The 15 new GMP production lines are for products of different forms, namely pill, capsule, granule, powder, herbal tea, edible solution (口服溶液剂), syrup, suspension, nasal drop, eye drop, ear drop, tincture, solution, suppository and aerosol.

Certain new production lines in the production complex started trial production in June 2005 and subsequently commenced mass production in September, resulting in a significant increase in the Group's production capacity and output.

PRODUCTS

The Group has permits for over 100 pharmaceutical products. Three new products including Olive Granules (橄欖晶冲剂) have obtained national patents, while patents for other products are being applied for. The new products are in various forms, including pill, capsule, granule, powder, herbal tea, edible solution (口服溶液剂), syrup, suspension, nasal drop, eye drop, ear drop, tincture, solution, suppository and aerosol. Some of our key new products enjoy a leading position in the international market, which include:

Product	Form	Medical Application
Anti-diabetes Tea (降糖茶) (Note 1)	Herbal tea	For treatment of diabetes and the lowering of blood sugar and lipid 用於糖尿病、降糖降脂
Olive Granules (橄欖晶沖劑) (Note 2)	Granule	A proprietary Chinese medicine with no side effect. It can strengthen the stomach, reduce stomach gas, help digestion with appetising effect, sobering, stop vomiting, facilitates breathing and diarrhoea caused by infections 沒有副作用之中成藥。健胃下氣、消滯、增進食慾、醒酒止嘔、胸腔痞滿、暑濕腹瀉
Naphazoline Hydrochloride Nasal Drop (鹽酸萘甲唑林滴鼻劑)	Nasal drop	A vasoconstrictive medicine that treats influenza and rhinitis and nasal congestion 血管收縮藥、治療傷風鼻炎、鼻充血
Sulfadiazine Suspension (磺胺嘧啶混懸液)	Suspension	For treatment of infection from haemolytic streptococcus, meningococcus and pneumococcus 用於血性鏈球菌、腦膜炎球菌、肺炎球菌
Glycerin suppositories (甘油栓)	Suppository	For treatment of constipation 用於便秘
Methyl Salicylate Aerosol (水楊酸甲酯氣霧劑)	Aerosol	For emergent treatment of soft tissue damages 用於軟組織損傷的應急治療
Lidocaine and Chlorhexine Acetate Aerosol 利多卡因氯己定氣霧劑	Aerosol	For treatment of cuts, scratches, heat rashes and sunburns 用於割傷、擦傷、熱疹、曬傷等

Note 1: This product, effective in reducing the blood sugar and cholesterol level, is used for the treatment of diabetes. Demonstrating a high degree of efficacy in State-approved clinical tests, the product is, similar to other Chinese drugs, free of toxins and undesirable side effects. Based on the statistics of health organisations in the PRC, there are approximately 100-150 million of diabetic patients. This product, easy to take and carry, has a very strong therapeutic value and a good market potential.

Note 2: This product, developed in response to market demand, is a registered patent product in the PRC. It is the first 100% pure Chinese medical solution developed and produced in China and around the globe with the use of advanced extraction technology. It has a high therapeutic value as a tonic for the liver and for treatment of gastrointestinal diseases, particularly stomach diseases. It is also good for the relief of hangover and is free of undesirable side effects. This product is well received by the market.

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Market potential: China, with a population of 1.3 billion, is a densely populated country. Its ongoing social development leads to an increase in work pressure and the pace of life, and people are not taking good care of their diet. The result is an increase in popularity of stomach diseases. At the same time, people are more and more concerned about the toxic side effects of chemical drugs. As a result, there is an increase in acceptance for natural Chinese drugs. This product has been proved to be free of toxic side effects in clinical tests. Based on the statistics of health organisations, there are approximately 300 million patients suffering from stomach diseases and the situation is particularly serious for the middle-aged and the elderly. However, more and more younger generations are also found to suffer from these diseases. Therefore this product has a very huge market and has sound development potential.

In response to market demand, the Group produced and sold new products which have higher gross margins. The Company strengthened its control over costs, quality and expenses with the aim of reducing and managing production costs and expenses as well as improving operational flexibility and efficiency. Building on its solid foundation of improving productivity and quality and expanding business network, the Group will attain further business growth in its business.

TARGET CUSTOMERS

Patients of hospitals and clinics used to be the end users of the Company's products. Today, the sales network of the Company's new products has been extended to drug stores and supermarkets. Most of our new products are healthcare products or healthy food with general therapeutic effect, which are good for both patients and non-patients. Healthcare products are popular nowadays and the Group will launch new products targeting this market. By extending its existing market with the new products, the Group will move forward to a new horizon in terms of product sales.

PROMOTION IN JAPAN

I made a trip to Tokyo from 6 to 10 December 2005, during which period I met with more than ten institutional investors, namely 東亞キャピタル, Mitsubishi UFJ Trust, 富國生命投資, 極東証券, 新光投信, 三井住友投資信託, 富士投信投資信託, 東海東京証券, 新輝國際 and 藍澤証券.

At the friendly meetings, our history and profile, new products and future plans were introduced to the institutional investors, enabling them a thorough understanding of our Company.

These potential investors expressed immense interest in our key promotional products, such as Olive Granules, Tongren Anti-diabetes Tea and 鹽酸金剛烷胺糖漿, indicating huge market demand and potential in Japan for such products.

In addition to these institutional investors, I also took the opportunity to meet a group of over 30 individual investors and participants in the medical and health care industry and answer their enquiries on an occasion. Further in-depth discussions with some of them took place after the meeting.

The visit provided the Company an opportunity to introduce its key promotional products in the coming year and to understand the potential demand in and general conditions of the Japan market. It also offered a good chance for individual and institutional investors of Japan to understand our Company and future development. After the visit, we are more determined to export our products to Japan and will explore potential distributors and distribution channels in Japan for our products shortly.

RESULTS

Building on our great efforts and solid foundation, the Group recorded a consolidated turnover of approximately HK\$260 million for the year 31 December 2005, representing an increase of 11% when compared with the HK\$234 million of last year. Profit after tax was approximately HK\$66 million representing a decrease of 2% over last year. Gross profit margin was approximately 40% (2004: 41%). Sales of the new production complex was approximately HK\$20 million for the first three months of trial production commenced in the second half of 2005 (2004: nil). Sales of large volume parenteral solution for 2005 was approximately HK\$61 million (2004: HK\$54 million).

DIVIDENDS AND DIVIDEND POLICY

To cater for the expectation and interest of our shareholders, the Directors are considering to reward shareholders with a certain part of the Company's profits after tax from 2006 by balancing the shareholders' interests and future development needs of the Company.

OUTLOOK AND PROSPECT

The Group will focus on the diversification of its product lines. Launch of the new production lines is expected to provide a new drive for the Group's growth, and enable the Group to further increase its sales and strengthen the competitiveness of its products. In response to the unfavourable market conditions, the Group will actively explore the PRC and overseas markets by introducing more new products in various forms. It is expected that sales will continue to grow. Through enhanced corporate management, the Group's products will see improvement in terms of both technology and results performance. The Group's main focus includes:

1. The Group introduced more new pharmaceutical products, the mass production of some of them commenced in the second half of 2005. These pharmaceuticals include medicine for the treatment of pains caused by influenza and bronchitis; product for the prevention of respiratory infection caused by influenza A virus; brain tonic; product for treatment of infection from haemolytic streptococcus, meningococcus and pneumococcus; dermatological; product for rhinitis and paranasal sinuses; eye tonic; supplements; detoxification products; lipid lowering agent. Production of other pharmaceuticals will commence in the coming year.
2. To keep monitoring trends in the pharmaceutical market to make timely adjustments on sales strategies, preparing for the launch of new products and actively seeking breakthrough in the sales of new products.
3. To continue strict internal management to enhance quality and efficiency. Through various examinations and quality control, the internal management is to be strengthened. Research and development will be speeded up in response to market demand. Internal audit is to be strengthened with stringent control over various expenses to manage relevant risks.
4. To actively seek opportunities of joint venture and cooperation, so as to further explore the prospects of globalization.

With our experience in the manufacture and sale of pharmaceutical products, our marketing network, and our experienced and professional consultant team, the Group will implement the following development strategies:

Acquisition and Expansion of Production Facilities

In order to bring maximum returns and revenue to shareholders, the Group is in the process of negotiating with two pharmaceutical companies for acquisition. The Group believes that, through horizontal and vertical acquisitions, the Group will become stronger and more competitive. The Group has acquired a parcel of land with an area of more than 26,000 square meters (40 mous) adjacent to its existing production facilities for the development of new production facilities, which will be used for the extraction of pure Chinese herbal essence for the Group's proprietary products "護肝胃酒靈 (Olive Granules)" and Anti-diabetes Tea.

Expansion into Overseas Markets

To meet market demands, the Group has applied for the sales of several products in Hong Kong. The applications are being processed.

APPRECIATION

I would like to take this opportunity to extend my deepest gratitude to the directors and staff as a whole for their immense contribution, dedication and diligence over the year.

By order of the board

Zhong Houtai

Chairman

20 April 2006